



Foreign Agricultural Service

GAIN Report

Global Agriculture Information Network

Required Report - public distribution

Date: 4/11/2003

GAIN Report #AS3009

Australia

Sugar

Annual

2003

Approved by:

Andrew C. Burst

U.S. Embassy

Prepared by:

Mike Darby

Report Highlights:

Australia's 2003/04 sugar cane crop has been constrained due to drought conditions throughout much of the growing areas. Cane sugar exports for 2003/04 are forecast at 3.72 MMT, five percent below year-earlier levels. The Federal and Queensland State Governments have agreed on a A\$150 million sugar industry adjustment program. The program includes a \$A30/MT levy on refined sugar.

Includes PSD changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1], AS

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SECTION I: SITUATION AND OUTLOOK

The 2003/04 sugar cane crop has been significantly constrained by drought conditions throughout much of the cane growing areas of Queensland. Despite an improvement in weather conditions recently, some of the larger cane growing areas remain in drought and industry sources believe a return to more normal conditions in these areas will only slightly improve the outlook for harvest.

Post has revised production for 2002/03 slightly upwards in line with ABARE figures. An increase in planted area, historically high Commercial Cane Sugar (CCS) content, and a higher cane crush combined to provide an historically large crop. This is the first large crop since disease outbreaks in 1999 severely curtailed production. Since then, production has recovered to pre 1999 levels.

ABARE's long term projections have sugar production increasing annually out to 2007/08. However, ABARE warns that these projections assume no major pest and disease outbreaks or extreme weather conditions. ABARE has also assumed that the industry will enact various reforms in order to increase its competitiveness and maintain annual growth in production.

Cane sugar exports for 2003/04 are forecast at 3.93 MMT, down seven percent on the previous year. Forecast lower cane sugar production and continued market volatility are expected to place downward pressure on export levels. Of note however, 3.93 MMT is a historically high level, above ABARE's five year average of 3.77 MMT.

The Australian Federal Government and the Queensland State Government are grappling with the issue of reforming sugar industry legislation. Both governments have signed a Memorandum of Understanding (MOU), essentially agreeing to remove all regulatory impediments to sugar production and processing and have also agreed to provide adjustment funding. However, it is not yet clear what regulatory changes will be made.

SECTION II: STATISTICAL TABLES

Centrifugal Sugar

PSD Table						
Country	Australia					
Commodity	Centrifugal Sugar				(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]
Market Year Begin		07/2001		07/2002		07/2003
Beginning Stocks	634	634	782	657	800	743
Beet Sugar Production	0	0	0	0	0	0
Cane Sugar Production	4610	4662	5027	5350	0	4900
TOTAL Sugar Production	4610	4662	5027	5350	0	4900
Raw Imports	3	3	3	3	0	3
Refined Imp.(Raw Val)	2	2	2	2	0	2
TOTAL Imports	5	5	5	5	0	5
TOTAL SUPPLY	5249	5301	5814	6012	800	5648
Raw Exports	3352	3499	3769	4081	0	3830
Refined Exp.(Raw Val)	95	95	95	138	0	95
TOTAL EXPORTS	3447	3594	3864	4219	0	3925
Human Dom. Consumption	1020	1050	1150	1050	0	1050
Other Disappearance	0	0	0	0	0	0
Total Disappearance	1020	1050	1150	1050	0	1050
Ending Stocks	782	657	800	743	0	673
TOTAL DISTRIBUTION	5249	5301	5814	6012	0	5648

Sugar Cane for Centrifugal

PSD Table						
Country	Australia					
Commodity	Sugar Cane for Centrifugal				(1000 HA)(1000 MT)	
	2002	Revised	2003	Estimate	2004	Forecast
	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]	USDA Official[Old]	Post Estimate[Ne w]
Market Year Begin		07/2001		07/2002		07/2003
Area Planted	0	0	0	0	0	0
Area Harvested	417	417	420	423	0	415
Production	32496	33716	36012	38062	0	36280
TOTAL SUPPLY	32496	33716	36012	38062	0	36280
Utilization for Sugar	32436	33656	35952	38002	0	36220
Utilizatn for Alcohol	60	60	60	60	0	60
TOTAL UTILIZATION	32496	33716	36012	38062	0	36280

Import Trade Matrix

Import Trade Matrix			
Country	Australia		
Commodity	Centrifugal Sugar		
Time period	Yr End 30 Jun	Units:	MT
Imports for:	2001		2002
U.S.	428	U.S.	481
Others		Others	
China	1853	China	2022
New Zealand	336	New Zealand	654
Mauritius	180	Singapore	256
Brazil	112	Mauritius	163
South Africa	60	Malaysia	89
United Kingdom	49	Hong Kong	54
France	23	Brazil	23
Paraguay	20	Paraguay	20
India	8	India	14
Thailand	8	The Netherlands	6
Total for Others	2649		3301
Others not Listed	43		16
Grand Total	3120		3798

Export Trade Matrix

Export Trade Matrix			
Country	Australia		
Commodity	Centrifugal Sugar		
Time period	Yr End 30 June	Units:	MT
Exports for:	2001		2002
U.S.	62915	U.S.	83220
Others		Others	
Malaysia	654900	Malaysia	771072
Canada	512090	Japan	762594
Rep of Korea	504776	Rep of Korea	569750
Japan	474500	Canada	477515
New Zealand	209501	New Zealand	245550
Saudi Arabia	171717	China	230000
Taiwan	120266	Saudi Arabia	169300
Iran	80000	Taiwan	122700
China	60000	Indonesia	66603
Morocco	60000	Fiji	463
Total for Others	2847750		3415547
Others not Listed	55594		60
Grand Total	2966259		3498827

SECTION III: NARRATIVE ON SUPPLY & DEMAND, POLICY & MARKETING

Production

Centrifugal Sugar: Cane sugar production for 2003/04 is forecast at 4.9 MMT, down eight percent from the previous year and in line with current figures of the Australia Bureau of Agricultural and Resource Economics (ABARE). Widespread drought across much of the cane growing region in 2002 and into early 2003 has reduced both the cane crush and the CCS level. Post forecasts CCS content for 2003/04 at 13.51, percent in line with ABARE figures, but below the 14.05 percent achieved in the previous year and just above ABARE's five year average of 13.35 percent.

While some regions have received excellent precipitation recently, the Mackay area (traditionally one of the largest producing areas) continues to suffer severe drought conditions. Harvest is not due to begin in earnest until June 2003 and timely rain in drought affected areas could still improve production prospects. Industry sources indicate that even with an immediate return to more normal weather conditions, yield potential has already been significantly reduced as a result of drought conditions to date.

Cane sugar production for 2002/03 is estimated at 5.35 MMT, in line with ABARE figures. This is well short of a record crop, but is historically high and represents the first large crop since pest and disease outbreaks severely curtailed production in 2000/01. Since then, many producers have replanted the worst affected areas, which are now coming back into production. This, combined with the historically high CCS level of 14.05 percent, has lifted production well above ABARE's five year average of 5.03 MMT.

Estimated cane sugar production for 2001/02 is just less than 4.66 MMT, largely unchanged from Post's previous report. This number is in line with industry figures. ABARE, however, puts the 2001/02 crop at 4.99 MMT, significantly higher than Post and industry estimates. Post shows sugar consumption to be relatively flat and has not adjusted production upwards in line with the ABS and ABARE.

ABARE's long term projections show sugar production increasing gradually to 5.85 MMT in 2007/08. ABARE also reports that this increase is contingent upon the Australian industry continuing to enact various reforms, freedom from extreme weather conditions and continued improvements in cane yield.

About 95 percent of Australia's sugar output is typically produced along the east coast of the state of Queensland. The bulk of the remainder is produced in New South Wales, with a small quantity produced in Western Australia's Ord River region.

According to ABARE, Australia's largest sugar crop since 1980/81 was produced in 1997/98 (5.6 MMT) and the smallest in 1991/92 (3.0 MMT).

Sugar Cane for Centrifugal: The 2003/04 cane harvest is forecast at 36.28 MMT, down nearly five percent on the previous year. Continued widespread drought conditions are responsible for the forecast decline in the cane harvest. This figure assumes a return to more normal weather conditions for the remainder of the growing

season (until harvest around June 2003). Industry sources indicate that drought conditions experienced at the beginning of the season "delayed " crop growth and significantly reduced "cane yield potential" in some major growing areas. A dramatic turnaround in seasonal conditions, while improving the outlook to some extent, would not greatly improve the outlook for the 2003/04 cane harvest.

Post estimates the 2002/03 cane harvest at 38.06 MMT, up thirteen percent on 2001/02 and more reflective of production levels prior to the pest and disease outbreaks of 2000/01. This production level represents a progressive increase since the disastrous harvest of 2000/01, when significant disease problems constrained production.

Consumption

Domestic sugar consumption in 2003/04 is forecast at 1.05 MMT, unchanged from the previous year. The Government of Australia (GOA) does not publish official national consumption figures. Anecdotal evidence suggests that sugar consumption is relatively flat and this is reflected in the consumption series remaining at the same level.

Post assumes that any sugar not exported is consumed or manufactured domestically. Consumption figures quoted by Post represent "domestic" disappearance. Post expects that some sugar supplied to domestic manufacturing industries would be exported as food products; however, Post has not included this component in sugar exports (as per reporting instructions).

Stocks

Closing cane sugar stocks for 2003/04 are forecast at 0.67 MMT, down nine percent from the 0.74 MMT estimated for the previous year. Lower production and historically high exports are placing some downward pressure on stocks, although Post does not deem this change as too significant.

Official figures on sugar stocks are unavailable in Australia. Industry sources indicate that while Australia has large storage capacity, the costs associated with storing sugar discourage accumulation of large inventories.

Trade

Cane sugar exports for 2003/04 are forecast at 3.93 MMT, down seven percent on the previous year. Forecast lower cane sugar production and continued market volatility are expected to place downward pressure on export levels. Of note however, 3.93 MMT is a historically high level, above ABARE's five year average of 3.77 MMT.

ABARE forecasts cane sugar exports for 2003/04 at 3.72 MMT, five percent below the level forecast by Post. Post considers ABARE's numbers to be too low due in part to the slightly higher opening stock levels, which industry sources suggest are unlikely to be carried over into 2004/05 and more likely to be exported. Furthermore, the derived level of domestic disappearance in ABARE's figures suggests domestic consumption or stock levels are fluctuating significantly. Post projects that ending stocks will fall in 2003/04 and that consumption will remain flat, in line with anecdotal evidence provided by industry sources.

Cane sugar exports for 2002/03 are estimated at 4.22 MMT, up 16 percent on the previous year and in line with ABARE figures. This figure is reflective of increased production experienced in 2002/03, as the Australian sugar industry recovers from pest and disease problems experienced in 2000/01.

ABARE forecasts cane sugar exports rising steadily to 4.53 MMT in 2007/08. However, ABARE's long term projection is contingent upon the Australian industry continuing to enact various reforms, continued increases in production and improvements in cane yield. ABARE stresses that pest and disease management will also be critical in achieving long term increases in both cane production and exports.

Australia's primary sugar export markets are Malaysia, Japan, Korea, China, Canada and New Zealand. Post has used official ABS data for the trade tables, which provides exports on a per country basis, but the ABARE trade data was used for the PS&D tables.

In November 2002, Australia and the United States announced the intention to negotiate a bilateral free trade agreement. Australian Government officials have announced that gaining increased access to the U.S. sugar market will be a priority in these negotiations. Currently, Australia's raw cane sugar exports to the United States are subject to a U.S. country-specific tariff rate quota. This quota is filled every year.

Policy

The Australian sugar industry has been under severe financial pressure since 1999. A combination of low prices, pest and disease outbreaks, adverse weather conditions and prescriptive government regulation are believed to be responsible for this situation. These circumstances have precipitated much debate between industry and Government, who are concerned with the overall sustainability of the industry and more specifically how the industry should restructure. Both the Federal Government and the Queensland State Government have signed a Memorandum of Understanding (MOU), essentially agreeing to remove all regulatory impediments to sugar production and processing and have also agreed to provide adjustment funding.

Government: In response to the "Independent Assessment of the Sugar Industry" report, the Federal Government has offered a sugar industry assistance package totaling A\$120 million. This package offers a range of measures including income support, interest rate subsidies on new loans, regional projects and an exit assistance package for producers wishing to leave the industry. In order to meet the funding commitment, the Federal Government requires an additional A\$100 million to be raised by a levy over four years.

Following much debate, the GOA recently implemented a levy on refined sugar for domestic consumption of A\$0.03 per kilogram at the refinery level. The GOA decided not to place a tariff on imported sugar, but instead applied the new levy to imported sugar at the same rate. Although no tariff is currently applied to imported sugar, Australia is allowed to apply a tariff of up to seven cents per kilogram under the Uruguay Round Agreement. For more information on the Federal Government's response see www.affa.gov.au.

The Queensland State Government has offered a A\$30 million package bringing total government assistance to A\$150 million. This funding will target innovation in the sugar industry, change management and consolidation of farms. While many changes are likely to be made to existing legislation, the Federal and State Governments do not support the abolition of single desk marketing in Queensland. For further information see www.sd.qld.gov.au.

Industry: In response to the MOU, "Canegrowers" (the peak body representing Queensland sugar producers) commissioned the Boston Consulting Group (BCG) to identify impediments to competitiveness and innovation in the Queensland sugar industry. The BCG report to Canegrowers outlined six main areas for improvement.

The report found that:

- an average increase in profit of around A\$1,000 per hectare would be required to return the industry to the profit levels achieved in 1998;
- productivity improvements could close this gap;
- the development of value-added products must be pursued;
- industry characteristics impede productivity and value adding opportunities;
- simple deregulation is not likely to be effective; and
- radical reforms are required but need to be "targeted" in terms of deregulation.

Despite the BCG report suggesting that "radical reforms are required," the suggestions outlined left many areas of cane industry regulation untouched. Of interest, the report did not recommend the abolition of single desk trading rights. Furthermore, no deregulation was recommended for some other tightly regulated aspects of the industry. For more information see www.canegrowers.com.au.